CANADA

Prices and incomes commission

Commission des prix et des revenus

July 24, 1970.

RAILWAY FREIGHT RATES

Prices and Incomes Commission

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RAILWAY FREIGHT RATES

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FOREWORD

The Prices and Incomes Commission was established on June 19, 1969, "to inquire into and report upon the causes, processes and consequences of inflation and to inform those making current price and income decisions, the general public and the Government on how price stability may best be achieved".

Following numerous separate discussions with representatives of the Canadian business community, including the Canadian Chamber of Commerce, the Canadian Manufacturers' Association, the Retail Council of Canada and the Canadian Bankers' Association, the Commission decided to call a National Conference on Price Stability in order to obtain a consensus on a national policy to combat inflation. The conference, held in Ottawa on Feb. 9-10, was attended by senior officers of national business and farm associations, representatives of professional groups, leaders of the Canadian business community and officials of the federal and provincial governments. Those present indicated a willingness to exercise a meaningful degree of restraint in their pricing policies in 1970 and there was broad agreement that:

Business firms generally, if called upon to do so, would reduce the number and size of price increases they would normally make in 1970.

More specifically, where higher prices are needed to cover higher costs, and market conditions make them feasible, business firms generally, if called upon to do so, would ensure that price increases were clearly less than the amount needed to cover the increases in costs at a normal volume of output and sales.

Representatives of the transportation, telecommunications and utilities industries endorsed the Commission's general criteria for price restraint. As a positive expression of co-operation the members agreed to provide the Commission with 30 days notice of any intent to increase general rate schedules.

The complete list of agreed criteria is contained in the Closing Statement of the National Conference on Price Stability released on Feb. 10, 1970.

At a Federal-Provincial Conference of First Ministers, held in Ottawa on Feb. 16-17, the federal government and all provincial governments endorsed the Commission's plan to call without delay upon business firms generally to follow the basic price restraint principle adopted by

the National Conference on Price Stability. First Ministers urged all Canadians to co-operate actively in restraining price and income increases during 1970.

Provision was made at the National Conference on Price Stability for a price review procedure whereby the Prices and Incomes Commission would review price increases to determine whether they comply with the agreed criteria.

The Government of Canada and most provincial governments expressed the hope that government sanctions would not be required but agreed that if necessary they would use such means as are within their control to deal with cases of serious non-compliance with the pricing criteria as reported by the Commission.

INTRODUCTION

This report consists of two parts:

Part I provides background data on the operations of Canadian railways. This material has been prepared by the research staff of the Canadian Transport Commission. That Commission was largely responsible for working with the railways in developing the financial and other data used in the preparation of this report;

Part II contains a description of the freight rate increases which have been introduced in 1970 and draws attention to other rate increases under consideration for 1970, and how they affect the financial position of the two major Canadian railways in relation to the agreed criteria.

- PART I -

The Canadian railway industry consisted of 34 railways in 1968 classified as follows:

Class I - Canadian National Railways and the Canadian Pacific Railway Co.

Class II - Twenty-three railways having average annual gross revenues of $500,000 or more from Canadian railway transportation operations.

Class III - Two railways having average annual gross revenues of less than $500,000 from Canadian railway transportation operations.

Class IV - Seven railways such as terminal, bridge, tunnel and pullman operations.

In 1968 these railways operated 44,338 miles of first main track and employed an average of 137,671 persons who were paid $936,300,000 in compensation, including amounts charged to capital accounts but excluding fringe benefits.

Table 1 shows the relative size of the more important Canadian railways in terms of their revenues from Canadian railway operations in 1968.

Table 1

Revenues of Railway Companies from Canadian Railway Operations, 1968
(Millions of dollars)

Class I	
Canadian National (Canadian lines only)	$781.2
Canadian Pacific	563.3
Class II	
Algoma Central	11.4
Canada Southern (Penn-Central)	17.2
Chesapeake and Ohio	14.7
Northern Alberta	10.6
Ontario Northland	17.4
Pacific Great Eastern	25.8
Quebec North Shore and Labrador	49.8
All Other Class II	36.2
Classes III and IV	1.4
Grand Total	$1,529.0

Source: Dominion Bureau of Statistics.

The overwhelming importance of Canadian National and Canadian Pacific is quickly apparent from the table.

Table 2 shows the operating revenues of the Canadian railway industry 1958-68, broken down into revenues from freight, passengers and other.

Table 2

Canadian Railways Industry Operating Revenues

	Total	Freight	Passengers	Other	National Transportation Act Payments (1)
		(Millions of dollars)			
1958	1163.7	995.9	88.0	79.8	--
1959	1244.6	1058.0	84.6	102.0	--
1960	1151.7	992.7	79.7	79.3	--
1961	1156.5	1013.0	69.9	73.6	--
1962	1165.3	1019.5	69.7	76.1	--
1963	1210.2	1067.3	68.1	74.8	--
1964	1324.4	1169.5	72.8	82.1	--
1965	1372.3	1210.7	76.7	84.9	--
1966	1480.8	1322.0	74.5	84.3	--
1967	1519.4	1222.2	92.3	96.0	108.9
1968	1529.0	1267.4	76.3	90.2	95.1

(1) These payments began in 1967 and replaced other subsidies which had been granted in the period 1959 to 1966.

Source: Dominion Bureau of Statistics.

In 1958 freight accounted for 86 per cent of all railway operating revenues; in 1968 the figure was 88 per cent, if payments under the National Transportation Act are excluded.

Table 3 shows the output of the Canadian Railway Industry in terms of revenue ton-miles and revenue passenger-miles:

Table 3

Output of the Canadian Railway Industry

	Revenue Ton-Miles	Revenue Passenger-Miles
	(Billions)	
1949	56.3	3.19
1950	55.5	2.82
1951	64.3	3.11
1952	68.4	3.15
1953	65.3	2.99
1954	57.6	2.86
1955	66.2	2.89
1956	78.8	2.91
1957	71.1	2.93
1958	66.3	2.49
1959	68.0	2.44
1960	65.5	2.26
1961	65.8	1.96
1962	67.9	2.02
1963	75.8	2.07
1964	87.0	2.68
1965	89.0	2.67
1966	96.8	2.59
1967	94.1	3.17
1968	95.1	2.63

Source: Dominion Bureau of Statistics.

It will be noted that the trend in ton-miles is upward; on the other hand, the trend in passenger-miles appears to have been generally downward until 1961. Since then it has shown

a tendency to rise moderately. This increase coincides with the introduction, particularly by Canadian National, of more aggressive sales and pricing policies with respect to passenger transportation. The effect of Expo 67 and other Centennial events is also obvious in the passenger figures.

Because of the importance of freight revenues as a component of railway revenues, only freight rates and increases in these rates will be dealt with in this report.

Railway freight rates may be usefully divided into the following categories:

Class rates

Commodity rates
- Competitive
- Non-competitive

Agreed charges

Statutory rates (Crow's Nest Pass and related grain rates).

<u>Class Rates</u>

For purposes of rate-making, the thousands of commodities moved by the railways are grouped into a limited number of classes in accordance with their shipping and other characteristics. The result of this process is the Freight Classification which shows the class in which each commodity is placed. Having determined the class into which a commodity falls, the applicable freight rate may be determined from a class rate tariff.

There are nine classes starting with Class 100, the eight lower classes being expressed as percentages of that class. A limited number of commodities take class rates at various percentages over Class 100. Class rates provide a rate for every commodity between all points in Canada served by the railways.

Changes in economic and competitive conditions have led to a decreasing importance of class rates, so that in 1968 they produced only 4.1 per cent of the freight revenues for movements of traffic between points in Canada.

Commodity Rates

Commodity rates are used to meet particular situations which are not covered by class rates. They are divided into two groups, non-competitive and competitive commodity rates.

Non-Competitive Commodity Rates

To encourage the movement of basic commodities in large volume throughout Canada the railways have established non-competitive commodity rates. These rates are not made to meet competition from other modes of transport but to help in developing traffic. They include rates made to assist Canadian producers to meet market competition in Canada from import goods and to market Canadian goods in other countries.

These rates are made in consultation between the railways and the shippers or industries. They may be published to apply between specific points or for general application on a mileage scale.

Non-competitive commodity rates move a substantial volume of railway traffic, accounting in 1968 for 31.6 per cent of total freight revenue for movements within Canada.

Competitive Commodity Rates

Competitive rates are arrived at by negotiation between the railways and the shippers to meet carrier competition. Their level is dependent upon the degree and nature of the competition. Though lower than the class rates, competitive rates, by giving the railways extra traffic volume, make a contribution to the burden of constant cost.

These rates also move a substantial volume of railway traffic, accounting in 1968 for 28.8 per cent of the total freight revenue for movements within Canada.

Agreed Charges

Agreed charges are contractual rates made under the authority of the Transport Act, 1938.

The purpose of agreed charges is to enable the railways in meeting competition to obtain in return for a lower rate a guarantee of traffic volume, which in turn results in rate stability for the shipper over a period of time. Under the contract for an agreed charge, the shipper guarantees to move a specified percentage of his traffic by rail at the agreed rate.

The contract is for a minimum period of one year, and continues until terminated by either party on 90 days notice.

Changes in the terms of the contract can be made at any time by agreement between the railway and the shipper to meet changed conditions.

In 1968 agreed charges accounted for 28.4 per cent of total freight revenue for movements within Canada.

Crow's Nest Pass and Related Rates

These are rates on grain and grain products moving to export positions from Western Canada. The origin of these rates was an agreement between the Government of Canada and Canadian Pacific Railway made in 1897.

In this agreement provision was made for reduced rates on grain and flour moving from points then existing on Canadian Pacific lines to the Lakehead. By an amendment to the Railway Act passed in 1925, these rates were extended to grain and flour moving to the Lakehead from all points on all railways. These rates also apply to the Port of Churchill, Man.

By an Order issued in 1927, the Board of Railway Commissioners for Canada directed that the rates on grain and grain products moving for export to British Columbia ports should be on the same basis as the rates to the Lakehead.

In 1968 traffic moving at Crow's Nest Pass and related rates accounted for 7.1 per cent of total freight revenue for movements within Canada.

The only source of data on freight revenue by rate category is the Waybill Analysis of the Canadian Transport Commission which is the source of Table 4. The analysis is based on a one-per-cent sample of all carload waybills for movements between Canadian stations. This means that "international" traffic (Canada-United States) or about 25 per cent of the total is excluded from the analysis. The level of international rates changes with the general level of rates in the United States.

Table 4 shows the decline in the relative position of class rates in both revenue and ton-mile terms, and the growth in importance of agreed charges. Statutory rates, although low revenue earners, bulk large in the workload of the railways. Commodity rates both competitive and non-competitive have tended to grow in importance in terms of ton-miles, although non-competitive commodity rates have tended to decline as revenue earners and competitive rates have increased in importance.

The figures for average revenue per freight ton-mile show the relative earnings positions of the various rate categories. Class rates are the highest and these rates exist for all commodities and between all stations in Canada. Other rates are on average lower and they exist only on a selective basis, that is for selected commodities, moving between selected points, and possibly only under specified conditions with respect to minimum car loading, type of equipment etc.

Table 4

Carload All - Rail Traffic Between Points In Canada

Category of Freight Rate	1960	1961	1962	1963	1964	1965	1966	1967	1968
	Per Cent of Sample Revenue								
Class rates	7.6	6.7	6.0	4.9	4.7	4.6	4.6	4.7	4.1
Commodity non-competitive rates	34.6	34.6	32.9	32.3	29.6	29.3	28.7	31.6	31.6
Commodity competitive rates	27.8	26.3	27.3	26.3	27.3	30.4	30.1	28.3	28.8
Agreed charges	19.1	20.1	22.9	24.7	25.2	25.3	24.8	26.2	28.4
Statutory rates	10.9	12.3	10.9	11.8	13.2	10.4	11.8	9.2	7.1
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
	Per Cent of Sample Ton-Miles								
Class rates	2.8	2.4	2.1	1.8	1.6	1.7	1.6	1.8	1.8
Commodity non-competitive rates	30.7	30.2	29.2	30.1	27.6	30.2	27.5	31.9	34.6
Commodity competitive rates	16.3	15.7	17.1	15.1	15.3	17.2	17.2	16.5	18.5
Agreed charges	13.5	13.7	16.8	18.7	18.8	20.4	20.2	21.6	23.4
Statutory rates	36.7	38.0	34.8	34.3	36.7	30.5	33.5	28.2	21.7
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
	Average Revenue Per Freight Ton-Mile (Cents)								
Class rates	4.44	4.28	4.34	3.95	4.03	3.95	4.05	4.03	3.55
Commodity non-competitive rates	1.85	1.75	1.75	1.57	1.50	1.44	1.49	1.52	1.41
Commodity competitive rates	2.82	2.51	2.48	2.55	2.50	2.61	2.50	2.65	2.41
Agreed charges	2.34	2.21	2.12	1.93	1.87	1.84	1.75	1.87	1.88
Statutory rates	0.49	0.49	0.49	0.50	0.50	0.50	0.50	0.50	0.51
Total	1.65	1.51	1.55	1.46	1.40	1.48	1.43	1.54	1.55

Source: Waybill Analysis of the Board of Transport Commissioners 1960-66 and of the Canadian Transport Commission 1967 and 1968.

Notes: (1) The Waybill Analysis is based on a one-per-cent sample of all carload waybills for movements between Canadian Stations.

(2) For the years 1960-66, revenues shown in waybills were increased to normal rate levels where rates had been reduced by reason of the Bridge Subsidy ($7,000,000 per year) or by reason of the Freight Rates Reduction Subsidy ($20,000,000 per year). "Normal rate levels" were also used in 1967, although the specific subsidies were no longer payable. In 1968, the revenues used were those paid by shippers.

In interpreting the average revenue per ton-mile figures, care must be exercised because the figures are based on a sample and because of the effect of year-to-year changes in the mix of traffic, not only between but also within rate categories. Despite these reservations, it appears that over the 1960-68 period movements in all rate categories tended to earn less per ton-mile except for grain movements at statutory rates which are fixed by law. A tendency for average revenue figures to rise after 1966 is also noticeable except for class and statutory rates. The year 1967 marked the end of the freight rate "freeze" imposed under the Freight Rates Reduction Act. Although this freeze applied only to class and non-competitive commodity rates, it tended to hold down competitive rates and agreed charges as well since the railways were reluctant to reduce the differentials among the various categories of rates.

Changes in Freight Rates 1958-1970

In the period mid-1959 to October, 1966, there were no important freight rate increases although there were some rate reductions on specific commodities amounting to as much as 63 per cent. These reductions affected principally bulk commodities like potash and sulphur but also some high-valued commodities like meat and automobiles. In October, 1966, competitive commodity rates were increased 10 per cent and on Jan. 1, 1967, agreed charges were increased 10 per cent.

These increases had always been possible under the rate "freeze" but until passage of the National Transportation Act (which lifted the "freeze")* appeared imminent, the railways were reluctant to act.

Important rate changes made since the passage of the Act on Feb. 9, 1967, are shown in Table 5:

Table 5

Rate Changes, May 4, 1967 - June 9, 1970

Effective	Master Tariff	Comments
May 4, 1967	CFA 85	Increase of from six per cent to 12 per cent on carload class and commodity non-competitive rates only (except coal or coke) and on traffic originating at or destined to points in the "select territory".
Sept. 5, 1967	CFA 86	Increase of from three per cent to six per cent on competitive rates only. Shipments in tank cars increased four per cent. Coal and coke increased specifically by 10 cents per ton.
March 23, 1968	CFA 76-D	"Bridge" Subsidy rate reductions adjusted to two per cent plus 5.4 cents per 100 pounds except no change on traffic from the "select territory" to Western Canada and vice versa.
May 1, 1968	CFA 87	Increase on class and commodity non-competitive rates only of from two per cent to five per cent, except traffic originating at or destined to points in the "select territory". No increase on coal and coke.

*Except for class and non-competitive commodity rates for movements within, into or out of the "select territory" as defined by the Maritime Freight Rates Act. The select territory rates were frozen for an additional 30 months (to Sept. 23, 1969). The select territory consists of the three Atlantic Provinces plus the Island of Newfoundland plus that part of Quebec south of the St. Lawrence River and east of Lévis.

(Table 5 - cont'd)

Effective	Master Tariff	Comments
March 23, 1969	CFA 76-D	"Bridge" Subsidy rate reductions adjusted to one per cent plus 2.6 cents per 100 pounds except no change on traffic from "select territory" to Western Canada or vice versa.
April 1,1969	CFA 88	Increase on class, commodity non-competitive and competitive rates of from four per cent to eight per cent, except on traffic originating at or destined to points in the "select territory". Coal and Coke increased 25 cents.
July 14, 1969		Increase of six per cent on agreed charge rates.
Sept. 1, 1969	CFA 97	Temporary increase on class, commodity non-competitive rates of four per cent and competitive rate of two per cent except class and commodity non-competitive rates from, to or within the "select territory". Coal and Coke increased 10 cents per ton. Expired Dec. 31, 1969.
Sept.23, 1969	CFA 76-D, 85, 87	Increase on class and commodity non-competitive rates to, from or within the "select territory" averaging 12 per cent. These rates had not been adjusted since 1959.
Jan. 22, 1970	CFA 98 Supp. 1	Temporary increase of Sept. 1, 1969,was reinstated and expired Feb. 28, 1970. Action taken because CFA 98's effective date was postponed from Feb. 1, 1970, to March 1, 1970.
March 1, 1970	CFA 98	Increase on class, commodity non-competitive rates and competitive rates from four per cent to eight per cent except class and commodity non-competitive rates to, from, or within the select territory. Coal and Coke increased 25 cents per ton.

(Table 5 - cont'd)

Effective	Master Tariff	Comments
March 23, 1970	CFA 76-D	Bridge subsidy rate reductions cancelled.
April 6, 1970	CFA 88	Increases in CFA 88 applied to class and commodity non-competitive rates on traffic from, to and within the "select territory". This brought these rates to the April 1, 1969, level in the remainder of Canada.
International (Canada-United States) Freight Rates		
Aug. 19, 1967	X-256	Class rates increased five per cent. Commodity rates in cents per 100 pounds and per ton increased various amounts on a sliding scale. Rates published in amounts per car or in units other than per 100 pounds or per ton increased three per cent.
June 24, 1968	X-259-A	Three-per-cent increase. Maximum increases on certain commodities.
Nov. 28, 1968	X-259-B	X-259-A cancelled. Increases of three per cent, four per cent, five per cent, six per cent, seven per cent, eight per cent, 10 per cent with minimum, maximum and specific increases on various commodities.
Nov. 18, 1969	X-262	General increase of six per cent.
June 9, 1970	X-265-A	General increase of five per cent, with specified maximum increases on certain commodities.

- PART II -

Price Increases

On Dec. 30, 1969, Canadian railways announced that effective Feb. 1, 1970, they would increase their charges on class and on commodity non-competitive rates and competitive rates by from four to eight per cent. Rates to, from or within the three Maritime Provinces, plus the Island of Newfoundland and the area in Quebec south of the St. Lawrence River and east of Levis (referred to as the "select territory") were exempted from the increase. The rates on coal and coke were to be increased on the same date by 25 cents per ton.

In January, 1970, the Government of Canada asked firms planning price increases prior to the National Conference on Price Stability to postpone such increases until March 1, 1970. The railways complied with this request and postponed implementing the increases announced for Feb. 1. On Jan. 22, 1970, however, temporary increases were made in class and commodity non-competitive rates of four per cent and in competitive rates of two per cent. These rates terminated on Feb. 28, 1970. Similar temporary increases had been introduced on Sept. 1, 1969, and had expired on Dec. 31, 1969. Rates to, from or within the "select territory" were exempted both in 1969 and 1970 from these temporary increases. On Sept. 23, 1969, however, increases had been introduced on class and commodity non-competitive rates to, from and within the "select territory" averaging 12 per cent. These rates had not been adjusted in the "select territory" since 1959.

On March 1, 1970, the rate increases announced for Feb. 1, 1970, were brought into force. On April 6, 1970, the non-competitive rates in the "select territory" were also increased. The Prices and Incomes Commission undertook this review to determine whether these rate increases and any other increases which the railways planned for 1970, or were likely to receive in 1970, comply with the agreed criteria.

The pricing criteria are designed to be applied to the circumstances of individual firms which propose or implement price increases. To undertake a review in line with the procedures outlined at the conference, the Canadian Transport Commission has obtained detailed information from each of the two major railways in Canada, Canadian National Railways (C.N.R.) and the Canadian Pacific Railway Co. (C.P.R.). This information has been compiled and studied to determine the position of each company in respect to the pricing criteria.

Scope of Study

Information was obtained on costs, rates, markets, profits and financial performance. As much as possible this information was compiled on a basis which reflects only the

railway operations and certain other closely related activities. In the case of the C.N.R. it pertains to the operation of its railway lines in Canada, to express services, to local cartage and those trucking operations which have essentially replaced railway services. Data examined for the C.P.R. deal with the operation of its railway lines in Canada. Revenues and costs of passenger service are included in the financial figures of both companies. The financial results shown in this report will differ somewhat from those contained in the companies' published annual reports.

In analysing the financial position of each company all rate increases either already implemented or planned for 1970 have been included in the calculations.

In the case of the C.N.R., the freight rate increases made effective to date amount to less than two per cent of projected revenues for 1970. Total planned rate increases for the C.N.R. in 1970 would amount to less than 2.5 per cent of projected revenues. The increases already in effect for the C.P.R. amount to less than two per cent and those planned for the entire year would amount to slightly more than two per cent of the company's projected revenues.

The criteria also stipulated that 1969 would in general be used as the base year when considering changes in costs and revenues. The criteria state, however, that when 1969 is not a normal year some more representative

period may be used as the base. The table on the next page indicates that 1969 is, in fact, a suitable base year for the C.N.R. The company improved its performance in 1969 over both 1967 and 1968. On the other hand the C.P.R. encountered a number of difficulties during 1969, including strikes among its larger customers, which caused its profits to be at a five-year low during that year. As a result it was felt that 1968 is more representative of normal operations for this company.

Much of the information obtained for this study is regarded as being confidential by the firms supplying it. Furthermore, as only two firms are reviewed, data cannot be presented in aggregate. Within these limitations as much information as permissible has been included in this report.

Although there are 34 railway companies operating in Canada, the C.N.R. and C.P.R. account for nearly 90 per cent of total railway business in Canada. For this reason it was thought to be adequate to concentrate exclusively on these two companies.

Financial Performance

Financial statistics for the two companies on the basis previously defined are shown below. Although detailed projections for 1970 were obtained from the railways these are not shown because they are regarded by them as being of a confidential nature.

C.N.R.
Statement of Revenue and Expense
1965 through 1969
(Millions of dollars)

	1965	1966	1967	1968	1969
Revenues	722.0	795.0	829.2	842.1	891.8
Expenses	707.1	764.6	814.9	812.7	855.2
Operating Income	14.9	30.4	14.3	29.4	36.6
Other Income	8.8	11.6	9.3	10.4	13.9
Other Expenses	0.4	0.4	4.0	3.0	3.9
Net Income before Fixed Charges	23.3	41.6	19.6	36.8	46.6
Fixed Charges*	57.7	60.4	60.8	66.0	69.6
Deficit	(34.4)	(18.8)	(41.2)	(29.2)	(23.0)

* Primarily interest charges on long-term debt.

The C.N.R.'s net income before fixed charges was substantially greater in 1969 than during previous years. Because of the heavy burden of fixed charges, however, the company shows an over-all deficit. Despite an increase in its fixed charges in 1969 the company had a smaller deficit that year because of higher operating revenues.

C.P.R.
Statement of Revenue and Expense
1965 through 1969

(Millions of dollars)

	1965	1966	1967	1968	1969
Revenues	518.9	554.6	561.6	563.3	581.0
Expenses *	478.5	504.2	521.7	521.8	546.1
Operating Income	40.4	50.4	39.9	41.5	34.9
Other Income	6.7	7.9	6.1	9.1	3.8
Other Expenses	3.1	3.7	3.0	5.2	
Net Income before Fixed Charges	44.0	54.6	43.0	45.4	38.7
Fixed Charges **	13.4	15.2	15.9	16.8	18.2
Net Income	30.6	39.4	27.1	28.6	20.5

* Includes income tax.
** Primarily interest on long-term debt.

The table shows the sharp decline in net income for the C.P.R. in 1969. Over the five-year period 1965-69 the average net income for the C.P.R. was slightly

more than $29,000,000 per annum. Therefore, 1968 is very close to being an average year for purposes of establishing a normal base.

Detailed revenue and cost projections were obtained from both companies for 1970 and were compared with actual revenue and cost data for 1968 and 1969. In compiling projected revenue figures, the Commission took into account all rate increases implemented to date or planned for later in 1970. Total projected revenues were thus prepared for the year showing separate increments for each of the rate changes already implemented or planned for later in the year. In the case of both the C.N.R. and the C.P.R. the further increases amount to about one-third of one per cent of total revenues.

Although data were also assembled on a freight ton-mile basis, it was felt that this material had serious shortcomings. This conclusion was supported by the railways. For example, while passenger revenues and costs are included, they cannot be related to a freight ton-mile. Furthermore, the product mix has changed considerably in 1970 and unit margins would differ substantially from base periods even if rates had not been increased.

In relating revenue/cost margins between base periods and 1970 it would be unfair to examine absolute

dollar amounts. Such a comparison would not make allowance for changes in volume of business handled. On the other hand it is possible to take into account volume changes and make valid comparisons if percentage margins are established. For this reason the margin between revenues and costs has been calculated as a percentage of revenue for each of the base periods and for 1970.

In order for the companies to be clearly within the criteria they would have to ensure that their margins in 1970 are clearly less than the margins prevailing in 1969 in the case of the C.N.R. and 1968 for the C.P.R.

CONCLUSION

In the case of both railways, traffic volume is expected to show a substantial increase in 1970 over 1969. The increase in volume will not, however, be reflected in higher earnings because of a squeeze on cost/revenue margins.

When all freight rate increases either implemented or planned for 1970 are taken into account, the C.N.R. currently forecasts that its deficit on Canadian rail

operations will increase by from $6,000,000 to $12,000,000 over the deficit of 1969. Actual revenues for the first half of 1970 appear to be consistent with the company's forecast of a less favorable position in 1970. The C.N.R. therefore meets the criteria.

Financial data supplied by the C.P.R. indicates that its net income in 1970 from rail operations is not likely to improve over 1969 and will be well below the levels of the base year 1968. These projected figures include revenues from all increased rates already implemented or planned for 1970. The C.P.R. is, therefore, within the criteria.